GLOBAL EQUITY PERSPECTIVES 19 OCTOBER 2020

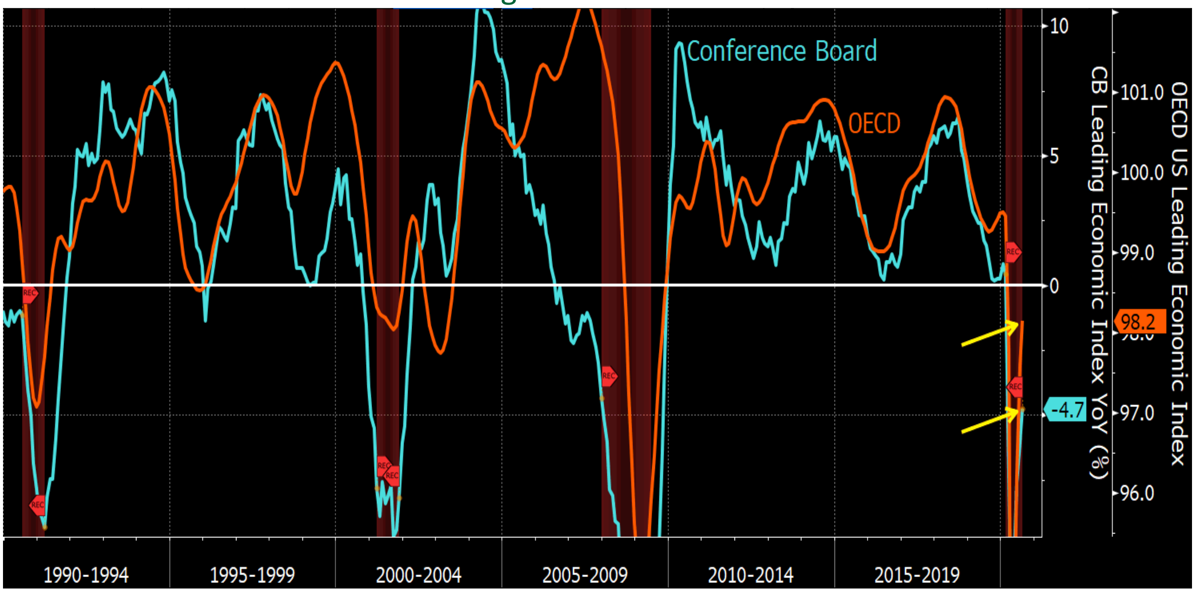
"Life is what happens to you while you're busy making other plans."

John Lennon

1. GLOBAL ECONOMY

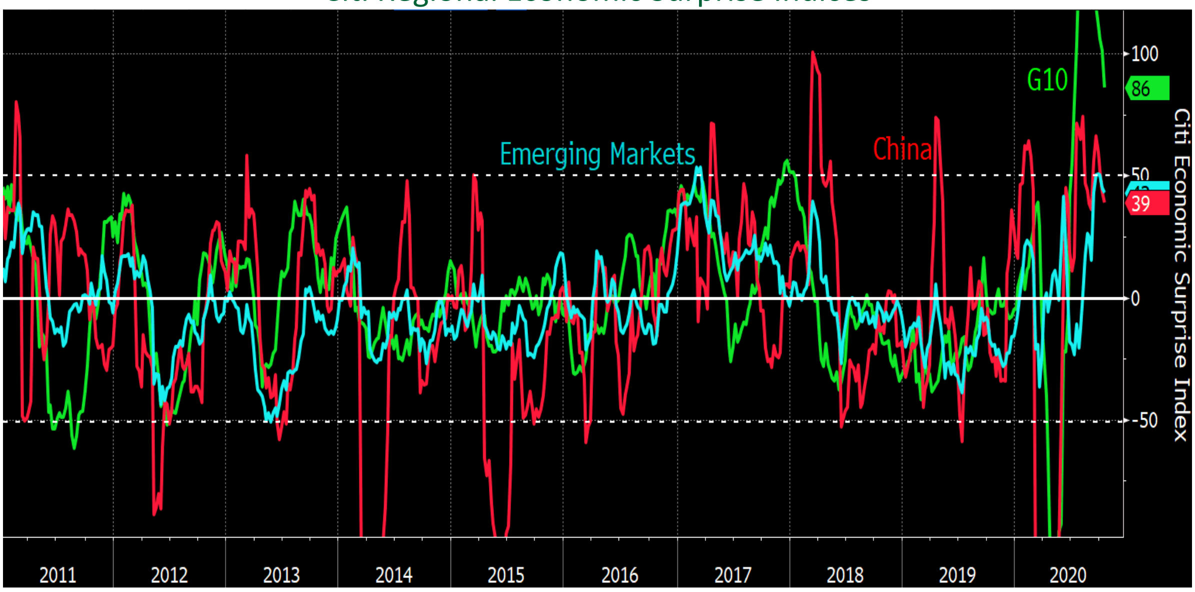
The global economic recovery seems to be staying on its constructive course:

Global Economic Leading Indices – OECD & Conference Board



Both the OECD and Conference Board Leading Economic indices continue to recover well from its COVID-19 depressed levels. Their patterns are similar to those at the early stages of previous economic recoveries and provide signals of continuing global economic recovery.

Citi Regional Economic Surprise Indices



The different regional Economic Surprise Indices in the above chart all reflect better than expected economic circumstances. This is especially the case for the G10 economies, but also for China and other Emerging Economies. The reading for the US (not shown in the chart) is currently the highest at a reading of 134 points.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2020. ***Past performance should not be used as a guide to future performance.***

2. US FINANCIAL CONDITIONS

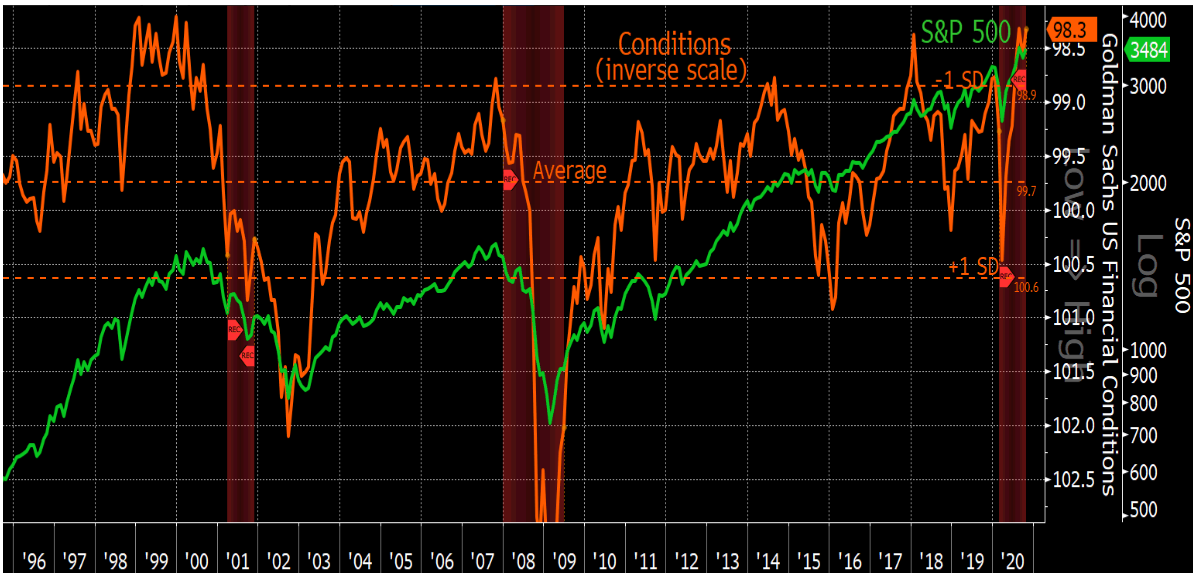
We have valuable US Financial Conditions Indices that reflect the level of overall financial stress in the bond and equity markets:

US – Bloomberg Financial Conditions+ Index vs S&P 500

The above Bloomberg Financial Conditions+ Index has recently moved into positive territory and is marginally above average. This reflects accommodative conditions.

This index has correctly indicated an outstanding buying opportunity during the depths of the COVID-19 Virus Crisis. Its recovery this time happened much quicker than with the Credit Crisis (or the Tech Bubble crisis). This may provide an indication that we are at the beginning of a positive economic cycle.

US – Goldman Sachs Financial Conditions Index vs S&P 500



The above Goldman Sachs Financial Conditions Index reflects the impacts of different variables on the US economy. This index also provided a strong buying signal when it dropped to a -1 Standard Deviation level during the Virus Crisis. It has since recovered close to record levels currently, providing indications of a good economic recovery.

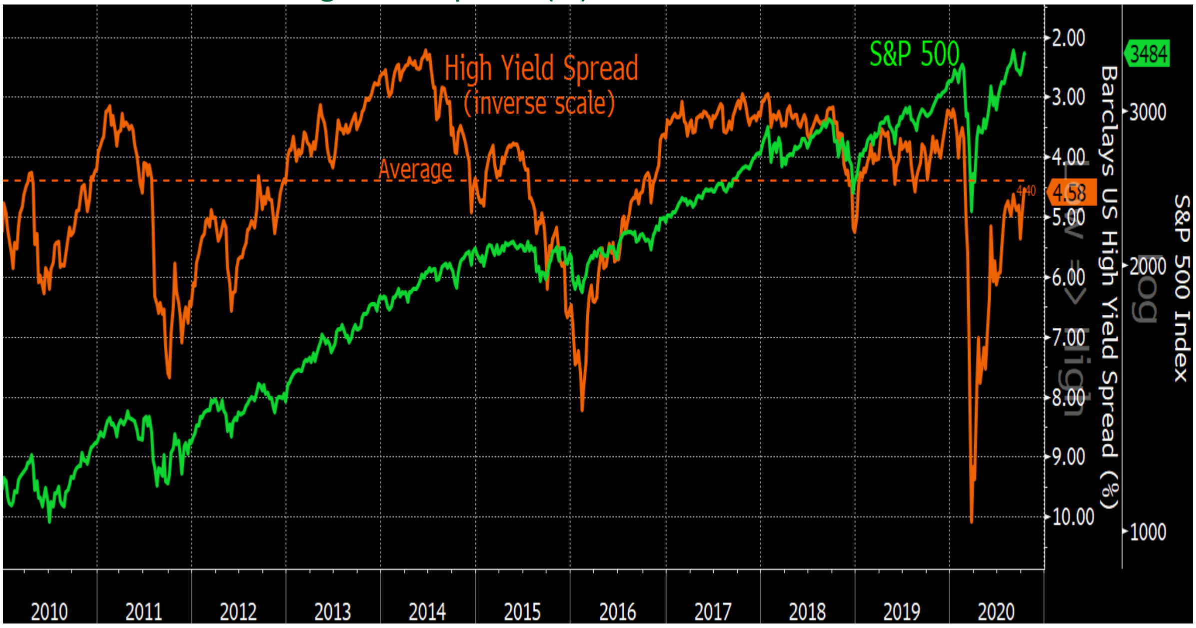
These Financial Conditions indices provide stronger capital market signals than what circumstances on the ground currently may suggest. Investors realise the stock market looks well beyond current economic activities.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2020. ***Past performance should not be used as a guide to future performance.***

3. CORPORATE BOND INDICATIONS

The Corporate Bond market serves as a useful indicator of the health of capital markets.

US – High Yield Spread (%) with Treasuries vs S&P 500



The average yield of the US Corporate Bond market is currently 2.8% (per Moody's), compared to the 0.7% yield on ten-year Treasuries. This 2.1% spread is exactly on its long-term average, reflecting a healthy Corporate market. This is also supportive of Equities.

The above chart reflects the spread in the riskier High Yield corporate market with Treasuries. It provided a strong Equity buying signal with the Virus Crisis. The current spread of 4.6% is close to its own average, again reflecting a healthy Corporate market currently.

US – Energy and the Rest's High Yield Spread (%) with Treasuries vs S&P 500

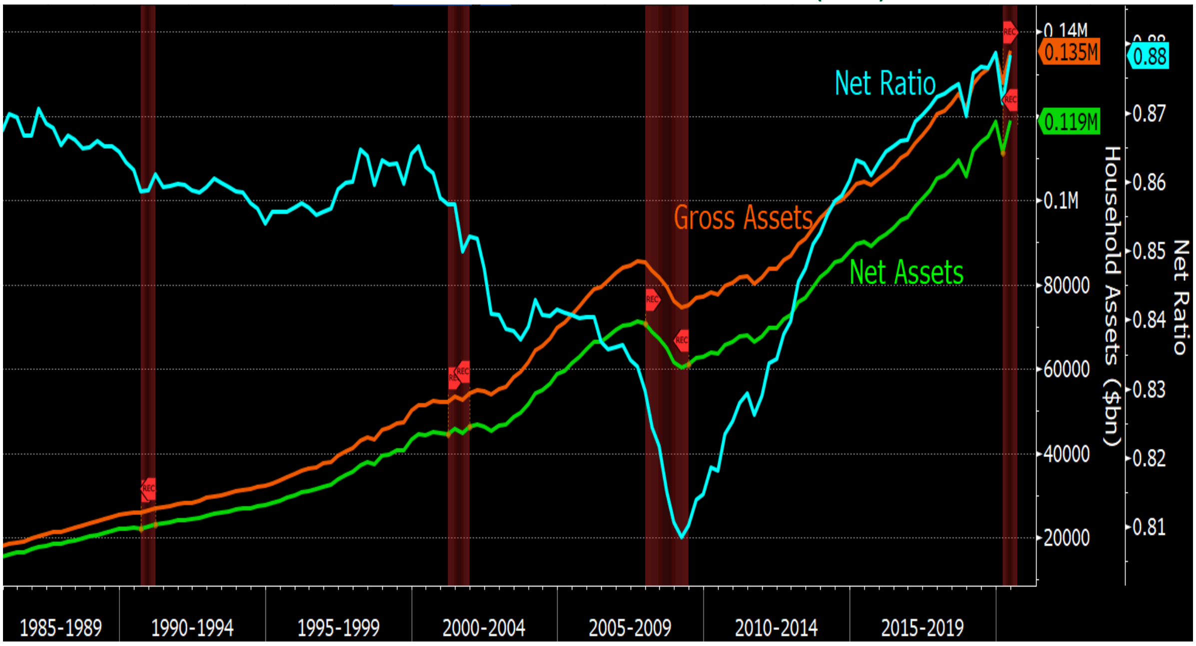
The above chart reflects similar data, but showing separately the spread of the Energy High Yield market and the rest of the High Yield market. Strikingly, the spread for the Energy market has also recovered but, at almost 8% currently, it remains well above historic norms. This does not bode very well for equities in that sector. Against this, the spread of 4.3% of the 'rest' is marginally below its own average level, reflecting a healthy rest of market. This is supportive of Equities generally.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2020. ***Past performance should not be used as a guide to future performance.***

4. HOUSEHOLD BALANCE SHEETS

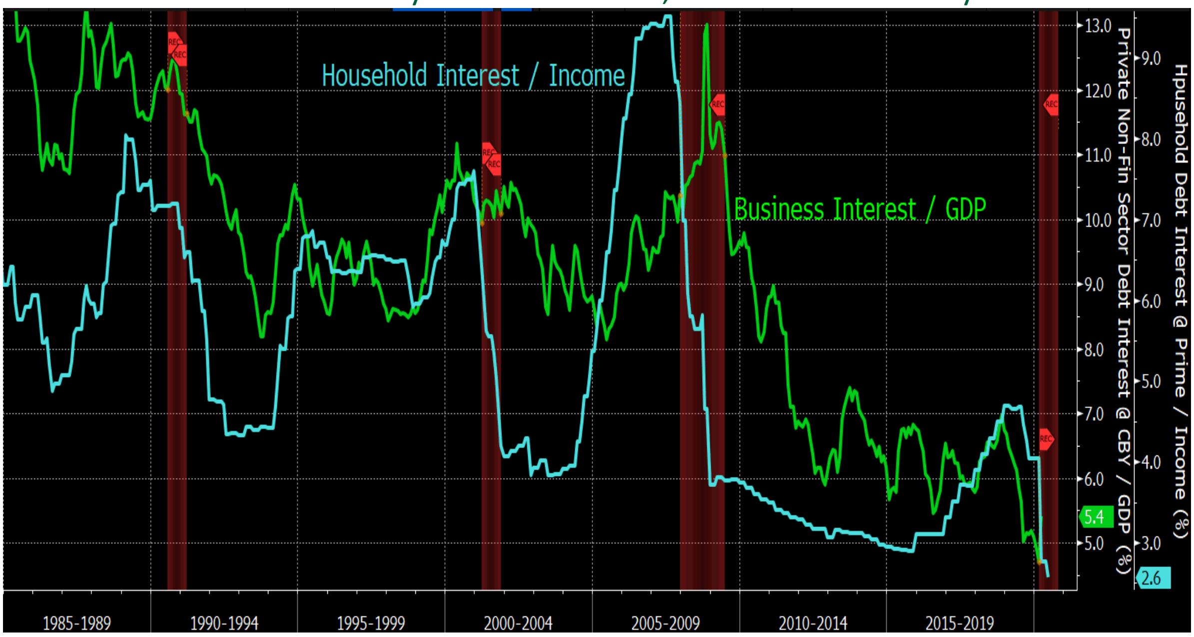
Against the backdrop of the critical importance of private consumption to the US economy, households' balance sheets are currently in the spotlight:

US – Household Gross & Net Assets ($bn)



Both the Gross and Net asset values are currently at record levels. The Net ratio (Net / Gross values) is at a record level of 0.88 despite the Virus Crisis. Their Debt Service ratio is at a record low of 8.7% (not shown in the chart). These, surprisingly, indicate relatively low stresses in the US consumer Debt market.

US – Household Interest Payments vs Income, Business Interest Payments vs GDP



We have calculated broad indications of the level of Household and Business interest payments relative to their Income and GDP respectively, as reflected in the above chart. This ratio is currently at an historic low level for Households, with also a very favourable ratio for the business sector.

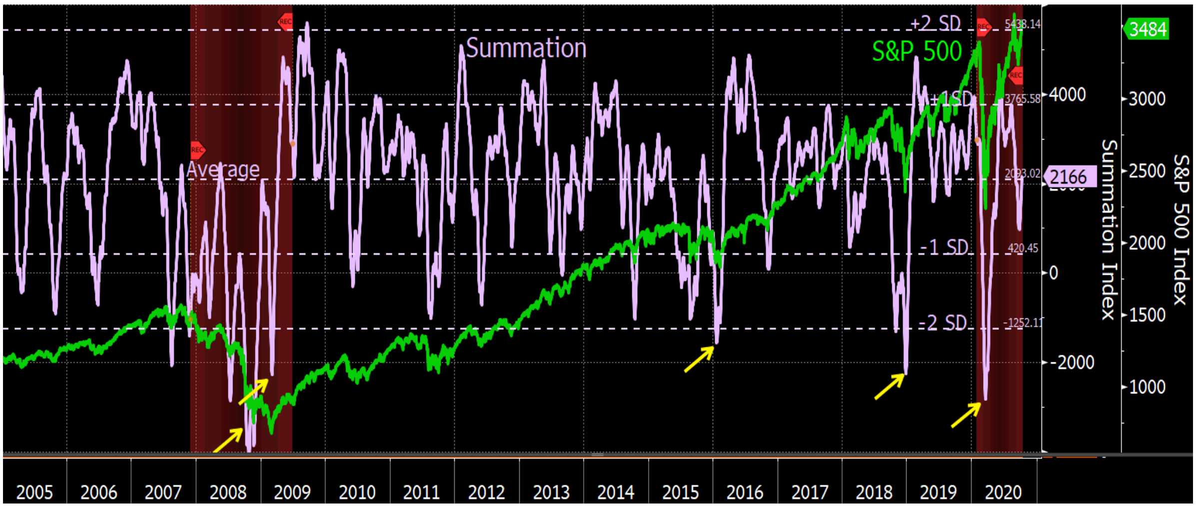
Contrary to the current Government debt issues, both Households and the business sector in the US are currently in strong financial positions. It seems they can, with some comfort, take on the potentially rising interest rate levels.

Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2020. ***Past performance should not be used as a guide to future performance.***

5. TECHNICAL PICTURE

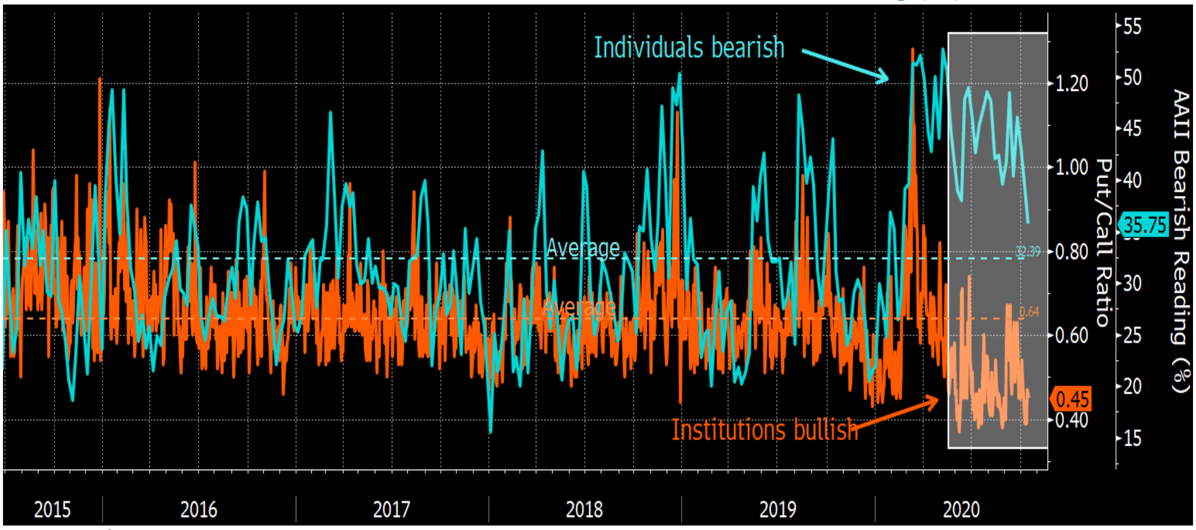
We follow several technical indicators. The following ones offer a good summary:

S&P 500 vs McClellans Advance – Decline Summation Index



The above technical summation index has historically provided good buy and sell technical signals. It is currently exactly on a neutral level and has ample leeway for whatever fundamental signals may follow.

S&P 500 Put/Call Ratio and AAII Bearish Reading (%)



The Put/Call ratio is close to a bottom, reflecting a positive stance in the institutional market. Individual investors have been very bearish recently, but are in process of getting more positive.

S&P 500 Growth YoY (%) vs Copper/Gold Ratio

Source: Bloomberg & Stonehage Fleming Investment Management Limited. October 2020. ***Past performance should not be used as a guide to future performance.***

As reflected in the preceding chart, the S&P 500 index logically has a good correlation with the Copper/Gold ratio. The latter now seems to be in a rising trend – this may further support share prices.

Nasdaq Index vs Net Number of Long – Number of Short Futures contracts

The Futures market reflects the institutional demand (or lack of) specifically for Technology shares. US regulatory fears recently caused a flurry, with a sharp increase in shorting activity (the net number of long and short contracts going deeply negative). These positions were quickly closed when the share prices receded, with a result of a new net long situation currently. This may imply that the demand for Technology shares is returning.

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